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# Markets Everywhere: The Washington Consensus and the Sociology of Global Institutional Change

Running Title: "The Washington Consensus"

**Abstract**
The dominance of free markets around the world is the defining feature of contemporary globalization. This current state of affairs is historically linked to the Washington Consensus, a coordinated campaign for the global diffusion of market-oriented policies that started more than 30 years ago. In this article, we review scholarship from multiple fields to assess the origins, evolution, and current status of the Washington Consensus: where did it come from, how did it become dominant, and what happened to it? After laying out historical background, we present three alternative perspectives on the Washington Consensus: its organizational dimension, its ideational aspects, and its relationship to a historical moment of American dominance in world affairs. We then move to considering current debates on what has happened to the Washington Consensus. Finally, we lay out three directions for future sociological research on global institutional change, before making our concluding observations.

**Keywords**
Washington Consensus; Globalization; Neoliberalism; Institutional Change; Global Governance

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## INTRODUCTION

More than 30 years ago, a panel of economic policy experts convened in Washington to discuss the Latin American debt crisis. The lead paper, titled "What Washington Means by Policy Reform," enumerated a 10-item list of what "what would be regarded in Washington as constituting a desirable set of economic policy reforms" for Latin America (Williamson 1990, p. 7). The author was John Williamson, a think tank economist and close observer of U.S. management of the debt crisis. "The economic policies that Washington urges on the rest of the world," he observed, "may be summarized as prudent macroeconomic policies, outward orientation, and free-market capitalism" (Williamson 1990, p. 1). "Washington," Williamson clarified, included "both the political Washington of Congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the US government, the Federal Reserve Board, and the think tanks" (Williamson 1990:1).

It is hard to overstate the ensuing political and intellectual significance of this neologism. For supporters, the Washington Consensus was shorthand for the list of reforms—cloaked in the legitimating narrative of consensus—that were necessary to overcome debt problems and unlock the development potential of low- and middle-income countries. For opponents, the term was used to describe the scourge of radical market-oriented reforms that trapped countries in conditions of dependency and underdevelopment, as well as "a clear effort to halt all discussion and debate about any economic ideas outside the free-market lockbox" (Klein 2007, p. 184). For friends and foes alike, the Washington Consensus was associated with a fundamental, unprecedented, and large-scale reorientation of developing-country policies.

[TABLE 1 ABOUT HERE]

The premise of this review article is that the Washington Consensus is due for a sociological excavation, for at least two reasons. First, it was an important historical force in its own right—not interchangeable with its more popular cognate concept, neoliberalism[1]—that set in motion powerful global changes that continue to play out today. "Neoliberalism" is broadly used to refer to "an explicit preference for private over public control" (Centeno & Cohen 2012, p. 317), but the term has increasingly suffered from multiple, competing definitions and a strong pejorative valence (Boas & Gans-Morse 2009). In contrast, the term "Washington Consensus" was used by its promoters to describe their own actions, and invites analysis with "real times, places, and people as their referents" (Tilly 1984, p. 14), focusing on agency, process, and motivation. Who diffused markets, how and why?

Second, although much discussed, the Washington Consensus remains poorly understood. Scholarly commentary on the topic has primarily come from economists debating its ideational foundations (or lack thereof) in neoclassical economic theory (Kuczynski & Williamson 2003; Rodrik 2006; Stein 2008; Stiglitz 2002, 2008; Williamson 1994a). In reality (as we show in this article), it was a multidimensional phenomenon, and as such well-suited to analysis through the wide-ranging theoretical tools of sociology.

We conceptualize the Washington Consensus as a coordinated campaign for the global diffusion of free-market policies, organized around the resources and normative authority of international organizations, especially the International Monetary Fund (IMF) and World Bank. The Washington Consensus was enabled by structural conditions, including historic realignments in

[1] A JSTOR search of abstracts in sociology journals between 1990 and 2010 reveals only 13 using the term "Washington Consensus"—compared to more than 6,000 using variations on the term "neoliberal."

global political and economic power, and dominant ideas within academic economics. However, it was also produced through the deliberate actions of powerful agents: the United States government, with the backing of organized interest groups, and in alliance with other wealthy-country governments and like-minded officials in international organizations.

In the sections that follow, we review scholarship from multiple fields to assess the origins, evolution, and current status of the Washington Consensus: where did it come from, how did it become dominant, and what happened to it? After laying out historical background, we elaborate on three distinct aspects on the Washington Consensus: its organizational dimension, its ideational foundations, and its relationship to a historical moment of American dominance in world affairs. We then move to considering current debates on what has happened to the Washington Consensus 30 years later. Finally, we lay out three directions for future sociological research on global institutional change, and make some concluding observations.

## THE ROAD TO THE WASHINGTON CONSENSUS

How can poor countries improve the prosperity and well-being of their people? In its answer to this question, the Washington Consensus echoed the ideas Adam Smith and other classical political economists. The fastest route to development, in this view, was for each country to remove ill-conceived government meddling, to open up to international markets, and to specialize in its "comparative advantage" (Chang 2002).

Such orthodox policy advice had been widely ignored during the post-World War II decades —an era when former colonies were becoming independent nation-states, and when nominally independent countries, such as China and Cuba, were being transformed by Marxist revolutions. A new term was coined—"Third World"—to refer to countries that belonged to neither capitalist nor communist blocs. One of the Third World's defining aspirations was economic development, defined as industrialization and growth, and pursued through a combination of financial assistance from wealthy countries and various forms of state intervention (Jolly 2004).

Third World "developmentalism," as it is sometimes called, was not a single policy model, but a varied menu of interventionist policies which governments mixed-and-matched, including state ownership of some industrial sectors, national development banks engaging in strategic investment, and a degree of central economic planning (Gereffi & Wyman 1990; Kohli 2004; Woo-Cumings 1999). Most famous was a policy known as "import-substituting industrialization," theorized by influential policy economists such as Argentine Raúl Prebisch and Brazilian Celso Furtado, but with an affinity to writings of Alexander Hamilton and Friedrich List more than a century earlier (Chang 2002). The underlying idea was that free trade doomed poor countries to perpetually supplying raw materials or low value-added products to the international economy—that is, to perpetual underdevelopment. The solution was for these countries to nurture domestic industries, protecting them from foreign competition through trade barriers until they could compete on international markets. Import-substituting industrialization, and other statist policies, were viewed sympathetically by an influential group of Western economists, and tolerated by the U.S. foreign policy establishment at a time when supporting Third World development aspirations seemed like an effective strategy for keeping them out of the Communist bloc (Galbraith 1979).

Developmentalist policies contributed to notable postwar economic success stories. For example, echoing the example of Japan, Taiwan and South Korea used strategic state interventions to foster rapid industrial growth—both protecting their national industries, and opening strategically to international competition to promote exports (Amsden 1989; Gereffi & Wyman 1990; Wade 1990). States that succeeded with these policies were characterized by effective bureaucracies that could work productively with and steer domestic economic elites without becoming co-opted by

them (Evans 1995). In other countries, including India and many nations in Sub-Saharan Africa, the results were more disappointing (Chibber 2002; Mukherji 2009; World Bank 1981). In Latin America, the record was mixed: significant industrialization and growth occurred in some countries, but it was difficult to sustain over time, and was accompanied by increased inequality (Cardoso & Faletto 1979; Evans 1979).

During the 1970s, however, two forces were gathering that would ultimately lead to the demise of Third World economic nationalism. First, an increasingly U.S.-centered economics discipline evolved away from the postwar Keynesian consensus—which had been open to diversity of policies and theoretical approaches—toward orthodox neoclassical ideas, which tended to suppose that "in a market economy, benefits flow to all participants, be they individuals or countries, from all voluntary acts of economic intercourse ('or else they would not engage in those acts')" (Hirschman 1981, p. 52). These ideas also tended to be universalistic—as economist and one-time World Bank and U.S. Treasury senior official Lawrence Summers would later put it, "the laws of economics…are like the laws of engineering. One set of laws works everywhere" (quoted in Wade 2012). They also tended to set aside the Keynesian-era focus on market imperfections to focus on the pathologies of state interventions. This was particularly obvious in the influential theories emanating from the Chicago School, which built into their models the assumption of perfectly functioning competitive markets (Fourcade 2009, pp. 94–95). It was also true of the "new political economy" thinking exemplified by Anne Krueger, Deepak Lal and Jagdish Bhagwati that drew attention to predatory states and rent-seeking (Toye 1991).

Second, realignments in the global political economy diminished the bargaining power of Third World governments. The 1970s was a decade of economic turbulence, with the collapse of the Bretton Woods monetary system, spikes in petroleum price, slowing growth, and high inflation. At the same time, the global economy became awash in private cash—revenues from petroleum exports recycled into the international banking system. To deal with the new economic environment, Third World governments tapped into international financial markets to revive their economies. When U.S. Federal Reserve chairman Paul Volcker raised interest rates in 1979, these debts became unsustainable. In August 1982, the Mexican government announced that it was unable to meet its debt payments; many other Latin American governments soon followed, along with a growing number from outside the region (Sachs 1989). This weakening of low- and middle-income governments' ability to negotiate with their wealthy counterparts coincided with the rise of the neoconservative governments of Margaret Thatcher and Ronald Reagan—leaders who had little tolerance for Third World demands and fervently believed in the "magic of the marketplace." It was out of these circumstances that the Washington Consensus first emerged.

## THE RISE AND DOMINANCE OF THE WASHINGTON CONSENSUS

"No statement about how to deal with the debt crisis in Latin America would be complete," commented John Williamson, "without a call for the debtors to fulfill their part of the proposed bargain by 'setting their houses in order,' 'undertaking policy reforms,' or 'submitting to strong conditionality'" (Williamson 1990, p. 7). This "call for debtors to fulfill their part" was at the heart of the Washington Consensus as we are defining it in this article—not just a list of recommended policies, but a strategy for putting them into practice. In this section, we survey literature from several disciplines to reflect on three dimensions of this crusade for policy reform: its organizational practices; its legitimation through dominant economic ideas; and the global political-economic conditions that enabled it.

### *Organizational Aspects: International Financial Institutions and their Conditionalities*

The Washington Consensus was built around the coordinated mobilization of international bureaucracies to promote a single set of policies around the world. Its leading organizational promoters were the and World Bank. Both were born out of the 1944 Bretton Woods conference, and both were international financial institutions (IFIs), charged with making financial resources available to their member governments. These similarities notwithstanding, the purposes of the Bretton Woods IFIs were originally quite distinct. The IMF's job was to oversee a system of pegged exchange rates, encourage member-states to remove restrictions on converting their national currencies, and lend hard cash to smooth out currency devaluations. For its part, the World Bank was to provide financing for projects that were seen as important for postwar reconstruction and development, such as bridges and dams. These mandates broadened over time: the IMF began to use its resources to incentivize anti-inflationary austerity policies, and the World Bank became more centrally concerned with development and the alleviation of poverty (Block 1977; Kapur et al. 1997). Yet the activities of the two organizations did not substantially intersect: they acted independently from one another, and developed distinct organizational cultures (Polak 1997).

It was only in the mid-1980s that these disparate fraternal twins were conjoined to become synchronized partners in the promotion of the Washington Consensus (Babb & Carruthers 2008; Babb & Kentikelenis 2018). The leading engineer of this organizational initiative was the U.S. government, enabled by a system that awarded higher voting shares to larger economies. The U.S. had then (as it does today) the largest vote, effective veto power over major decisions, as well as unique informal influence over the two organizations' affairs (Evans & Finnemore 2001). Both the IMF and World Bank were located in Washington, D.C., within walking distance of the U.S. Treasury, the agency officially in charge of IFI policy.

The turning point was a bold plan for managing the Third World debt crisis, proposed in 1985 by U.S. Treasury Secretary, James A. Baker, III. Under the Baker Plan, financial aid to indebted governments would be used to incentivize market-liberalizing reforms. The main vehicle for achieving this was conditionality, the provision of financial resources to governments in exchange for the adoption of particular policies (Babb & Carruthers 2008; Dobbin et al. 2007). To conform to Baker's proposal, the World Bank reorganized its lending around comprehensive plans for reforming national economies and channeled more of its resources to policy-conditional "structural adjustment" loans; by the end of the 1980s, these made up nearly 30 percent of its disbursements (Babb 2009, p. 152). The IMF began to use its resources to promote not only currency stability but also market liberalization. This entailed an expansive redefinition of the IMF's mandate, achieved in a process spearheaded by U.S. Treasury, with the support of other high-income governments (Kentikelenis & Babb 2019).

Significantly, under the Baker Plan these historically self-contained organizations began to collaborate intensively. Having a lending agreement with the IMF became a routine prerequisite not only for negotiating with private creditors, but also for accessing World Bank resources (Weisbrot 2007). The two organizations' lending conditions were harmonized in jointly-drafted reform programs (Kapur et al. 1997, p. 139). Soon thereafter, the regional Inter-American and African Development Banks—having been instructed to develop policy-conditional lending facilities of their own—began to tailor their conditions to the World Bank's specifications (Babb 2009, p. 139-43). The ranks of this united front were soon swelled by bilateral aid donors, such as the European Union, which also required aid recipients to be "on track" with the IMF and World Bank (Dijkstra 2002). With these powerful actors acting in unison, policy conditions—privatization of state-owned industries, removal of trade barriers, opening to foreign investment, balancing national budgets—became much more difficult to evade. This recipe would be immortalized in Williamson's essay coining the term "Washington Consensus."

As a bureaucratic practice the Washington Consensus was standardizing. Originally conceived as a plan for Latin America, the recipe was almost immediately applied to the similarly indebted African countries, along with other indebted members of the former Third World (Sahn et al. 1997). With the collapse of the Soviet bloc, Eastern European countries lined up for the same medicine (Williamson 1994a). The paradigm could also be tweaked depending on domestic policy environments: some reforms were deemed more important than others (Kentikelenis et al. 2016). For instance, privatizations in Eastern Europe were prioritized as bulwarks against backsliding toward economic planning (Ban 2016). As long as market-liberalizing reforms were materializing, there was always scope to expand their remit later. What was important in the short-run was to introduce as many reforms as necessary to surpass a supposed "point of no return" at which market-liberalizing policies would create their own self-enforcing dynamics and a return to the old ways would no longer be feasible (Roland 1994). This was the logic of "big bang" or "shock therapy" approach to reform.

Over time the reform agenda expanded. When the first round of reforms failed to produce the desired growth (as we discuss below), a modified conventional wisdom—endorsed by the U.S. government, the World Bank, IMF, and amenable think-tanks—held that the original list of reforms was necessary but not sufficient. A new, "augmented Washington Consensus" included both old-fashioned market liberalization plus institutional reforms (such as central bank independence or corporate bankruptcy legislation) and "pro-poor" conditions (such as minimum targets for social spending) (Kuczynski & Williamson 2003; Stiglitz 2008). This lengthening laundry list of "second generation" IFI conditions also began to include items that inspired less consensus among experts, such as the World Bank's influential campaign to privatize public pension systems (Orenstein 2008), and the IMF's campaign to remove capital controls (Abdelal 2007; Kentikelenis & Seabrooke 2017). The conditions attached to any particular loan could be breathtakingly ambitious in scope. For example, in its IMF loan request during the 1997 Asian Financial Crisis, the government of Indonesia committed to more than 100 policy conditions, including lifting trade barriers, privatizing state firms, and the extensive revision of national laws governing bankruptcy and corporate restructuring (Babb 2009, p. 160). In this way, the Washington Consensus become steadily more constraining on governments' "policy space" (Grabel 2011; Kentikelenis et al. 2016).

Although implementation of Washington Consensus was widespread, it was also uneven. Its star pupils were Latin American governments, praised for the breadth and depth of their reforms (Lora 2012; Williamson 1994a). American allies in strategically important regions such as the Middle East received more lenient treatment from IFIs, and were obliged to enact fewer policy conditions (Clark & Dolan 2020; Dreher & Jensen 2007). Sub-Saharan African nations became infamous for receiving initial disbursements, failing to comply and then entering into new loans all over again (Easterly, 2001). To avoid such fiascoes, IFIs honed and strengthened the delivery mechanism, withholding funds until the desired policies had been adopted, a practice known as "ex ante" conditionality (Babb & Buira 2005). Over time, IMF and World Bank conditional loans became measurably more successful at altering borrower policies (Henisz et al. 2005; Smets & Knack 2018). Nevertheless, a distinct group of governments kept IFIs' policy advice at arm's length by maintaining stable currencies and staying out of debt, including Vietnam, India, and (until the Asian financial crisis of the late 1990s) South Korea, Indonesia, and Thailand (Babb 2013, p. 11; Stallings 1992). By far the most significant of the Washington Consensus abstainers was China—a country that would later play a key role in the unraveling of the Consensus, as we will see below.

***Ideational Aspects: Economists, Technocrats, and the Legitimation of Reform***

Perhaps the most striking feature of the Washington Consensus was its deliberate invocation of dominant academic ideas, and its exemplification of the "triumph of neoclassical economics in the developing world" (Bierstecker 1992). Yet, as we have seen, developing countries' sudden mass-movement toward free market policies could not be attributed simply to the persuasive power of economic ideas, but also to the organizational mechanisms that put these ideas into action. The Washington Consensus was not an economic theory but a policy paradigm—an enduring framework of expert ideas and policy practices tethered to the routine activities of states and other bureaucratic organizations (Babb 2013; Hall 1993).

The conditionality attached to IFI programs was legitimated by economic ideas with near-unassailable intellectual authority. These ideas purportedly represented "the common core of wisdom, embraced by *all serious economists*, whose implementation provides the minimum conditions that will give a developing country the chance to start down the road to the sort of prosperity enjoyed by the industrialized countries" (Williamson 1994b, pp. 27–28, emphasis added). Reforms might impose short-term pain, but in the long term, reformers would achieve sustained growth and development. IFIs were ideal messengers for this message: they employed hundreds of staff members with PhDs in economics from prestigious (usually American or British) universities (Nelson 2014) and produced influential publications read by policy elites and academics around the world (Stern & Ferreira 1997). Flouting their prescriptions was tantamount to defying the sensible advice of a family physician.

When engaging in negotiations with borrowing governments, the influence of IFIs was especially pronounced when they were preaching to the converted. During the debt crisis, officials bearing graduate degrees in economics from U.S. universities rose to the top of many developing-country governments, especially in Latin America. Viewing these technocrats as credible and reliable interlocutors, IFIs reinforced their influence by rewarding them with new loans or less stringent conditionality (Babb 2001; Ban 2016; Centeno 1994; Chwieroth 2014; Dezalay & Garth 2002; Markoff & Montecinos 1993). Once in charge of government ministries, they became famous for their zealous promotion of liberalizing reforms that sometimes even went beyond what IFIs required (Williamson 1994a). The diffusion of the Washington Consensus thus owed much to decades of scholarships enabling the study of economics in the U.S. and decades of training programs sponsored by the IFIs themselves (Ban 2016; Broome & Seabrooke 2015; Stern & Ferreira 1997, p. 526).

Among a sector of elites in borrowing countries, the intellectual premises of the Consensus were legitimate. Yet even where officials were unconvinced of the soundness of the advice, simply ignoring it was rarely an option. Following (or at least appearing to follow) the advice unlocked resources not only from the IFIs, but also from powerful third parties—such as bilateral aid donors, creditors, and foreign investors—who saw IFI approval as a signal of sound policy (Stubbs et al. 2016). This created an incentive for governments to follow and even invite IFIs' input—even when, as in the case of technical assistance programs, it was not attached to loans (Wallace 1990).

Although linkage to the world of economic knowledge was key to IFIs' cognitive supremacy, behind the scenes they were known to curate ideas in a process that sometimes owed more to shareholder politics than the ideals of open debate and peer review. Toward the beginning of the Reagan administration, for example, World Bank publications suddenly moved away from discussions of poverty and toward discourse around the virtues of market liberalization. The reason for this shift was that Reagan's appointed World Bank president, Tom Clausen, had selected Anne Krueger—"a polemical conservative economist [whose] ideological agenda…coincided with the Reagan administration's market orientation"—to head the Bank's research department (Kapur et al. 1997, p. 339).

As chief economist, Krueger purged staff with views that deviated from pro-market orthodoxy, and presided over a narrowing in the focus of World Bank research (Kapur et al. 1997, pp. 22, 1193–94). Although this focus broadened somewhat after Krueger's departure in 1986, the Bank continued to engage in "paradigm maintenance" to stay faithful to the market-liberalizing message (Wade 1996). On a routine basis, the Bank's research department promoted studies that resonated with the Washington Consensus through such means as hiring and promotion incentives, and the discouragement of dissonant data (Broad 2006). In some cases, the U.S. government intervened directly to ensure that research was consistent with the Washington Consensus message. For example, under pressure from the U.S. Treasury, in 2000 the World Bank forced the resignation of its chief economist Joseph Stiglitz, who had publicly criticized the IMF's handling of the Asian Financial Crisis. Later that same year, Ravi Kanbur, lead author of the poverty-themed *World Development Report*, resigned in protest in response to U.S. interference, as Treasury deemed the Report to be excessively preoccupied with inequality and insufficiently attentive to the benefits of liberalization (Wade 2002).

***International Political Economy Aspects: U.S. Hegemony and Business Interests***

It is equally important to consider the Consensus as a projection of U.S. power. Over the course of the 20th century the U.S. employed a range of tactics to open developing-country economies to its exports and investment, in a pattern resembling the British empire of earlier centuries (Kohli 2020). Throughout the Cold War, however, the U.S. government's imperial impulse to open and marketize developing economies was kept in check by security concerns—the need to indulge Third World aspirations for fear of pushing them to the opposing camp. This tempering of naked commercial interests was reflected in the complex structure of U.S. foreign aid, in which the U.S. Treasury shared power with the State Department (Lancaster & Dusen 2005). Although radical Third World nationalism could be thwarted by U.S. military or covert interventions, more moderate developmentalism was treated more indulgently: in the words of Filipino sociologist Walden Bello, during the Cold War the U.S. "was more tolerant when it came to protectionism, investment controls, and a strong role for government in managing the economy" (Bello 2000, p. 4). In Northeast Asia, a region of particular strategic interest, the U.S. invested large amounts of bilateral aid, supported widespread land redistribution as a bulwark against communist subversion, granted preferential access to U.S. markets, and backed the building of powerful economic ministries (Wade 2019). The three nations that benefited from such treatment—Japan, Taiwan and South Korea—developed strong developmental states, and would later achieve fame for their "miracle" economies (Evans 1995).

The weakening and ultimate collapse of the Soviet bloc in the 1980s brought about a uniquely unipolar moment in world history (Ikenberry 2011; Wohlforth 1999), profoundly altering the U.S. approach toward developing countries. With the evaporation of the leading security concern, purely economic interests were brought to the fore, as exhibited by a shift in the locus of authority over U.S. foreign policy from the State Department to the Treasury and Commerce departments (Cohen 2005). This gave organized corporate interests greater input into policy design (Etzion & Davis 2008; Seabrooke & Tsingou 2020). It was in this context that a circumscribed plan for managing the Latin American debt crisis became an ambitious campaign "to open the global economy by 'rolling back the state' in the developing world" (Kohli 2020, p. 339).

Although more research remains to be done, existing evidence points to strong connections between private interests and U.S. promotion of the Washington Consensus. Leading U.S. business groups were quick to appreciate that the removal of import and investment controls would create opportunities for profit in hitherto-protected foreign markets (Fairbrother 2019). Banks, which held

the debt of many developing countries at the brink of insolvency, had an even more compelling interest: Washington Consensus policies opened both a path toward repayment and the opportunity to convert their debt holdings into stakes in newly-privatized enterprises (Kentikelenis & Babb 2019).

The links between big business and banks, on the one hand, and U.S. promotion of Washington Consensus reforms, on the other, occurred both at the level of the executive and Congress. In the case of the former, Jagdish Bhagwati—a prominent economist and free-market proponent—observed that Wall Street "has exceptional clout with Washington for the simple reason that there is, in the sense of a power elite à la C. Wright Mills, a definite networking of like-minded luminaries among the powerful institutions—Wall Street, the Treasury Department, the State Department, the IMF, and the World Bank most prominent among them" (Bhagwati 1998, p. 11; see also Wade & Veneroso 1998). This confluence persisted well after the Reagan presidency into the international economic policies of the Bush and Clinton administrations (DeLong & Eichengreen 2002). In relation to Congress, campaign contributions by big banks were linked to higher likelihood that a member of Congress would vote to increase U.S. financing of the IMF—a better resourced IMF being important for banks during crisis periods (Broz 2011; Broz & Hawes 2006).

The removal of Cold War limits on the exercise of U.S. power emboldened Washington to champion not only economic liberalization, but also a stunningly ambitious array of legal reforms. By the mid-1990s, weak institutions were widely blamed for the troubled transitions of post-Soviet economies, for the ongoing economic woes of Latin America and Sub-Saharan Africa, and for a series of internationally contagious financial meltdowns exemplified by the Asian Financial Crisis. Institutional reforms, it was argued in Washington, were the key to liberalizing economies more effectively (Kuczynski & Williamson 2003). Not incidentally, remaking developing–country institutions along Anglo-American lines would purportedly make developing-country markets more stable and predictable for international investors (Evans 2004).

To address these goals, "governance-related" IFI conditions—such as judicial modernization, civil service restructuring and central bank independence—were introduced alongside traditional market-liberalizing conditions (see Halliday & Carruthers 2007). These represented a major departure from the norms of the Cold War, when geopolitical alliances trumped all other concerns, and "the United States and its allies…refrained from scrutinizing the governance failings of proxy states, for fear of undermining what they saw as bulwarks against communist expansion" (Denizer et al. 2011, p. 40). By the end of the 1990s, in contrast, IFIs and Western bilateral donors routinely included a host of intrusive, politically sensitive reforms that required passage by national assemblies. The crusade for "good governance" was made possible by the post-Cold War unipolar moment, when a triumphant capitalist bloc could exercise seemingly unlimited editorial authority over developing-country institutions.

## THE FATE OF THE WASHINGTON CONSENSUS IN THE 21ST CENTURY: CURRENT DEBATES

From the late 1980s until around the end of the 20th century, the Washington Consensus brought about sweeping changes across the Global South. Trade barriers evaporated—for example, in Latin America between 1985 and 2005 average tariff levels dropped from about 42% to less than 10%—opening the floodgates to a surge of foreign imports (Lora 2012, p. 3). Dozens of countries dismantled labor market regulations and public sector bureaucracies (Reinsberg et al. 2019a; 2019b), thousands of state-controlled industries were transferred to private hands (Bouton & Sumlinski 1996), and hundreds of old laws were replaced with newer, ostensibly market-friendlier ones (Polillo & Guillen 2005). Some reforms, such as the privatization of public utilities, met with fierce resistance and some retrenchment (Zelner et al. 2009). Others, such as central bank independence,

turned out to be extremely durable (Garriga 2016). The extraordinary impact of the Consensus was acknowledged by proponents and detractors alike (Stiglitz 2002; Williamson 1994a).

What is less clear, however, is how to describe the fate of the Washington Consensus in the subsequent decades. What happened to this influential campaign for the promotion of market-oriented reform—and where is it today? We sort literature reflecting on these questions into two broad perspectives: scholarship that emphasizes the erosion and growing irrelevance of the Consensus; and work that highlights its persistence in a more covert, "undercover" form.

### *The Consensus Unravels*

One current in the literature suggests that the Washington Consensus has become a shadow of its former self, for at least two reasons. First, there has been a crumbling of the paradigm's scholarly legitimacy: it can no longer credibly be said that there is a unified development policy paradigm that inspires consensus among "all serious economists." This ideational shift can be attributed to new theoretical currents in academic economics—where it has become more fashionable to study market imperfections, irrationalities, and pathologies (Fine 2003)—and an accumulation of disconfirming evidence. By the beginning of the 21st century, it was apparent that countries that had most fervently implemented the Washington Consensus recipe, such as Latin America and Eastern Europe, were failing to thrive (Stiglitz 2002), and suffering from increases in unemployment and inequality (Forster et al. 2019). In contrast, it was impossible to ignore that China—a nation that had mostly ignored Washington Consensus prescriptions—had achieved both astounding long-term economic growth and impressive social indicators (Rodrik 2007). Famous academics who had once endorsed the Consensus—such as Paul Krugman and Jeffrey Sachs—found themselves recanting. As economist Dani Rodrik commented in 2006, "it is fair to say that nobody really believes in the Washington Consensus anymore" (Rodrik 2006: 974).

Growing evidence of the new intellectual climate could be seen in the research output of the World Bank and IMF. Apparently renouncing "paradigm maintenance," the World Bank proclaimed that "there is no unique universal set of rules" for development policy (Nankani 2005, p. xii). Even the famously orthodox IMF research department showed evidence of more flexible thinking (Ban & Patenaude 2019), evidenced by publications on topics such as the growth-dampening effects of inequality (Ostry et al. 2014) or the adverse effects of excessive labor market flexibility (Dabla-Norris et al. 2015).

Second, shifts in the distribution of global economic power—broadly associated with the weakening of American hegemony (Ikenberry 2018; Mearsheimer 2019)—have undermined Washington's ability to prescribe policy recipes for developing countries. By the 2010s, it was clear that "the South"—led by China, the world's new economic powerhouse—was exerting far greater influence, as measured by share of world GDP, global trade patterns and a host of other measures (Wade 2011). Emerging-market governments could tap into private international capital markets, allowing them to be "increasingly selective about the [policy] areas in which they invite Bank engagement" (World Bank 2009: 16).

Organizing within forums such as the G20 and the so-called BRIC group (for Brazil, Russia, India, and China), newly-empowered states demanded a greater role in global economic governance (Hopewell 2016). Although their efforts to acquire more influence in the World Bank and IMF were mostly stymied (Vestergaard & Wade 2015), they began to build parallel financial institutions (Grabel 2018). China and fellow emerging-market governments founded two new multilateral development banks of their own in 2014—the New Development Bank and the Asian International Infrastructure Bank. To avoid the IMF, governments accumulated large international reserves, both as individual governments and as part of regional financial agreements; in this way, they could

manage balance-of-payments crises without risking painful and controversial conditionality (Kring & Gallagher 2019). Thus insured, many middle-income governments have been able to entirely abstain from IMF lending arrangements over the past two decades.

For the world's poorest countries, perhaps the most significant change to emerge from these global realignments has been a flood of bilateral foreign aid from "new donors," with China leading the charge. In contrast to the Bank and Western aid agencies, new donors do not tend to encumber their money with extensive policy conditions. This "silent revolution" in development assistance (Woods 2008) has been criticized for its lack of environmental and other safeguards, and for being used by authoritarian leaders to prop up their regimes (Bader 2015). A benefit for developing-country governments, however, is that it breaks up Washington's agenda-setting monopoly. During the heyday of the Washington Consensus, traditional donors (the U.S., European Union, and so on) preconditioned aid on governments' good standing with the World Bank (Dijkstra 2002). More recently, however, aid-receiving governments have been able to exercise choice in a marketplace of development financing (Chin & Gallagher 2019; Greenhill et al. 2013). In particular, Chinese aid has been shown to "reduc[e] the ability of Western donors to intentionally weaken governments that have chosen to pursue policies which do not fall in line with Western policy preferences" (Strange et al. 2015, p. 950). One recent study found that World Bank conditions declined by 15 percent for every percentage-point increase in aid from China (Hernandez 2017).

***The Consensus Undercover***

A second current in the literature draws attention to the enduring impact of the Washington's decades-old campaign to spread free-market capitalism around the world. Taken as a whole, these studies suggest that rather than going away, the Washington Consensus has gone undercover. The new "undercover Washington Consensus" lacks the monolithic backing of economists and the overwhelming American unipolarity that enabled its first bloom. Rather, it has become durably inscribed in the infrastructure of global institutions—in the long-term expansion of their mandate and ambitions, and the persistence of their organizational technologies. More manifest at the IMF and more latent at the World Bank, this undercover Consensus continues, albeit more subtly and inconsistently, to press governments toward liberalizing and business-friendly reforms.

Unlike the coherent policy paradigm observed by Williamson in 1990, the undercover Consensus is not protected by the legitimating force-field of orthodox neoclassical thinking. Instead, Washington IFIs today seem to be engaging strategically with economic ideas by using the time-honored organizational strategy of loose coupling (Weick 1976). Although IFI research output has become substantially diversified, it appears that core operations are being walled-off from the potentially disruptive influence of these new ideas (Forster et al. 2019; Ortiz & Cummins 2019). Meanwhile, within IFI research teams there continues to be a curation of ideas and thinkers to select out those that conflict with policy. At the World Bank, two recent chief economists resigned after clashing with management over the content of research publications and country benchmarking exercises (The Economist 2020).

Such tactics have enabled the IFIs to produce intellectually legitimate and apparently undogmatic research outputs, while engaging in activities that do not inspire the universal approval of economists—some of which harken back to the Washington Consensus. These are most visible at the IMF, an organization with a quasi-monopoly on bailing out governments in crisis that have few alternatives but to go along. Several countries, mostly in East Asia, have sought to insure themselves against the risk of falling into the hands of the IMF and its painful conditionality (Hamilton-Hart 2014). However, many other countries—those imprudent or unlucky enough to incur unsustainable debts or balance of payments deficits—remain part of the IMF's customer base.

To be sure, contemporary IMF packages often promote different policy mixes than those of the 1980s and 1990s. For example, expansive privatization plans or edicts to fire thousands of civil servants are less prevalent among loan conditions. It may be that the very success in implementing Washington Consensus policies early on makes them redundant now (Kentikelenis et al. 2016, p. 561). After all, economic deregulation and privatizations are difficult policies to reverse, and—once introduced—create their own self-enforcing dynamics (Appel & Orenstein 2016; Stallings & Peres 2011).

Even so, the IMF's advocacy of deep structural reforms is not a thing of the past and has been permanently institutionalized in its toolkit: such reforms are still regularly introduced in lending agreements, especially for countries that had long avoided IMF programs. This was most clearly the case in the Eurozone bailouts of the 2010s, in which the IMF joined forces with European Union institutions to design reform packages that included not only austerity measures but also civil service reorganizations, labor market liberalization, and privatization of state assets and enterprises (Fitoussi & Saraceno 2013; Lütz & Kranke 2013).

The World Bank—which does not primarily serve governments in desperate need of short-term cash—has evolved along a somewhat different track. With prospective clients turning to other sources of financing, the Bank has turned to subtler tactics, such incentivizing reform by harnessing the power of private capital to provide or withhold investment. This strategy is evident in the World Bank's benchmarking systems, developed in the early 2000s to generate indexes of the quality of government policies. Designed to influence investor sentiment, these benchmarks give better grades to more enthusiastic liberalizers and deregulators (Broome et al. 2018; Doshi et al. 2019). Evidence of the undercover Consensus can also be seen in the "billions to trillions" initiative, embraced by the G20, World Bank, and other multilateral development banks, which proposes using official development assistance to spur private portfolio investment in developing country infrastructure. To attract such investment, developing-country governments are ostensibly motivated to "de-risk" their investment environments by removing regulatory barriers, privatizing assets, and providing subsidies and guarantees (Gabor 2020). Early reports suggest that the initiative has thus far generated limited interest among investors and had little impact on developing-country policy—with investment simply gravitating toward safer investments in wealthier developing countries (Attridge & Engen 2019). In the long term, however, it has the potential to lead to the large-scale financialization of developing economies, sharply constraining their policy autonomy (Rowden 2019).

## LOOKING FORWARD: THE SOCIOLOGY OF GLOBAL INSTITUTIONAL CHANGE

This article has highlighted a major theme within a larger historical movement from an era when governments of poorer countries had a margin of economic policy autonomy, toward a new age of hyper-charged global markets and diminished policy space. The study of such global transformations has traditionally been dominated by international relations scholars, with arguments framed by well-established theoretical traditions (such as realism and constructivism). The Washington Consensus highlights how sociology can stake out its own territory within debates over global institutional change and enrich perspectives in other social sciences. We suggest three directions for future research and theory-building.

### *The Organization of Global Change*

Perhaps the most striking theme in the unfolding story of the Washington Consensus is the central role of international organizations in global change. Because sociology has a long tradition of studying organizations, international relations scholars have been mining sociological theories to

frame their studies of the World Bank, IMF and other international bodies (cf. Abbott et al. 2016; Barnett & Finnemore 1999; Chwieroth 2014). Within the sociology of globalization, however, the dominant approach draws on a particular strand within organizational theory in which international bureaucracies serve primarily as vectors for diffusing global norms (see Dobbin et al. 2007; Meyer 2010). This norm diffusion function, while important, clearly does not encompass the full range of change-making activity. The IFIs' muscular promotion of the Washington Consensus, in particular, seems more evocative of Max Weber's conceptualization of bureaucracy as a powerful tool deployed to achieve rationally-calculated ends.

Setting aside the question of *how* international organizations promote global change, there is enormous scope for sociologists to more fully theorize *why* they do so in the ways we observe. A sociology of international-organizational behavior should be informed by a fuller range of organizational theories, and knowledge of the diverse logics that drive these organizations that depend on financing mechanisms, decision-making structures and strategies of transnational rulemaking. For example, the change-promoting actions of an international organization may reflect global values and culture—but might also be driven by the demands of one or more powerful shareholder states (Fiss & Zajac 2004), or the internal calculations of organizations promoting their own interests (Selznick 1949). In the original Washington Consensus, we see evidence of all three motivating forces: the normative influence of the economics profession; the power of the leading shareholder; and the strategic behavior of organizations seeking to preserve and enhance their resources and relevance.

### *Postcolonial Perspectives on Global Change*

Major global transformations—whether economic, social, political, or environmental—create winners and losers, and it should come as no surprise that these are sites of distributional conflict between countries at different levels of development, as well as between former colonizers and colonized (Chorev 2012). As long noted by dependency and world-systems theorists, these also conflicts take the form of global class struggles, as capitalists in the Global North and the Global South form alliances to exploit workers and capture state infrastructures (Evans 1979; Wallerstein 1979). Foregrounding such struggles has been at the core of a recent and growing strand of sociological work that investigates global changes using a postcolonial perspective.

Rather than focusing on "core" states, corporations or international organizations in the Global North as analytical entry points, postcolonial accounts shift attention to the agency of actors in the Global South, their relational infrastructures, and the legacy of colonial power-relations (Connell 2011; Go 2016; Kohli 2020). Employing this lens, studies have examined the role of "peripheral" countries in global norm-making (Edwards 2020), and the impact of weak state capacity and debt dependence—both associated with legacies of colonialism—on the economic trajectories of developing countries (Edwards 2017). These insights can also be applied to analyses of the Washington Consensus, as there are parallels between the earlier eras of colonialism and the role played recently by global institutions that act as "the guardians against nationalization and the abuse of foreign property" (Milanović 2019, p. 148). We need to more fully understand how U.S. "informal empire"—not based on direct control, but on clientelistic relationships with elites in the Global South and an ever-present threat of coercion in cases of non-compliance (Kohli 2020, p. 7)—impacts developmental trajectories and the direction of institutional change.

### *The Social Foundations of Global Change*

Sociology has a comparative advantage in theorizing the uniquely social dimensions of global institutional change. Rather than focusing exclusively on individual, class, or organizational

interests, sociologists highlight how these interests are embedded in a variety of social structures and identities. As Dezalay and Garth (2016, p. 202) put it, architects of global change "participate in reshaping governance…[and also] tame and absorb the change to protect their position and the social world which they inhabit."

Such a perspective allows us to get to the bottom of who is making global change, why they participate, and the resources they mobilize to bring it about (Bockman & Eyal 2002; Fourcade 2006; Harrington & Seabrooke 2020). For example, the market-promoting technocrats of the Washington Consensus era were behaving not only as agents of their respective governments, but also as economists and members of a transnational network used their prestige and social capital to negotiate more effectively with IFIs—and used their negotiations with IFIs to leverage policies consonant with their professional training (Broome & Seabrooke 2015; Markoff & Montecinos 1993). More recently, the remarkable movement of some developing-country governments toward universal healthcare and AIDS treatment was spearheaded by transnationally-connected medical and legal experts within reforming countries (Harris 2017). Often, actors apparently on receiving end of global change are not merely following orders, but rather drawing on their social and cultural capital to participate in the crafting of new policy norms (Carruthers & Halliday 2006; Halliday 2009; Halliday et al. 2010; Harris 2017).

## FINAL REMARKS

At the time of writing, a global pandemic has claimed more than a million lives, pushed many more millions into poverty and generated economic turmoil around the world. The Washington IFIs expanded their operations in response to record demand, but the financial support they can provide is far below the estimated need (Stubbs et al. 2021). A proposal to increase IMF resources to combat the pandemic's economic fallout was blocked by the U.S. government, which remains the most important shareholder in both the IMF and the World Bank (Tooze 2020). Meanwhile there have been some signs of the reemergence of a policy discourse reminiscent of the 1980s. In recent remarks, World Bank president David Malpass, suggested countries receiving Covid-19 support would

> need to implement structural reforms to help shorten the time to recovery and create confidence that the recovery can be strong. For those countries that have excessive regulations, subsidies, licensing regimes, trade protection or litigiousness as obstacles, we will work with them to foster markets, choice and faster growth prospects during the recovery (Malpass 2020).

It is too soon to assess how the current upheavals will transform globalization. But what is certain is that the technology of the Washington Consensus—policy-based lending for structural reforms, country strategies, Bank-Fund collaboration, and so on—remains encoded in the infrastructure of global economic governance, available for powerful agents to use when the opportunity arises. In the midst of a crisis that may present opportunities for a more just and sustainable world order—or the opposite—it is more important than ever to remember and reevaluate the enduring legacy of the Washington Consensus.

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Table 1. The initial Washington Consensus reform list

| **Policy area** | **Prescriptions** |
|---|---|
| *Fiscal policy* | Fiscal discipline: avoid large government budget deficits (no more than 1-2% of GNP) |
| *Public spending* | Reduce expenditures on indiscriminate subsidies; target spending on health, education and (to some extent) infrastructure |
| *Taxation* | Tax base should be broad and marginal tax rates should be moderate |
| *Interest rates* | Should be determined by the market (rather than public authorities), and positive |
| *Exchange rates* | Should be determined by the market (rather than public authorities), and competitive (to foster export-oriented economies) |
| *Trade policy* | Remove restrictions on foreign imports |
| *Foreign direct investment* | Remove restrictions on foreign direct investment |
| *Privatization* | Sell state-owned enterprises to private firms |
| *Deregulation* | Remove excessive regulations on economic activity |
| *Property rights* | Property rights should be secure |
| Source: Authors, adapted from Williamson (1990). | |

## RELATED RESOURCES

The websites of international financial institutions commonly provide a host of data on their operations, at varying degrees of detail. Below we summarize some additional sources of data and statistics that might be of use to scholars interested in global economic governance.

**IMF**: The IMF Archives has a collection of publicly-available digitized internal documents, including transcripts from its Executive Board meetings, with a 5-year embargo on recent documents (https://archivescatalog.imf.org/search). The IMF Monitor website (http://www.imfmonitor.org/) aggregates and systematizes data on conditionality, financial surveillance and Covid-19 assistance. The Global Financial Safety Net Tracker contains information on countries' access to the IMF and alternative regional sources of financial support (http://www.gfsntracker.com/).

**World Bank**: Richard Clark and Lindsay Dolan (2020) have published their dataset of World Bank conditionality (https://doi.org/10.7910/DVN/YSS19O).

**IFI Response to COVID-19**: Julian Duggan and Justin Sandefur have created a live tool to monitor World Bank Covid-19 financial support (https://www.cgdev.org/blog/tracking-world-banks-response-covid-19). The Global Investigative Journalism Network has a study guide for tracking private procurement contracts in World Bank COVID-19 projects (https://gijn.org/tracking-covid-19-world-bank-funding-by-country/). Covid-19 Africa Watch is maintaining a database on World Bank, IMF, and private philanthropic pandemic financing in Africa (https://covid19africawatch.org/global-response-funding-tracker/#imf-and-world-bank).